



INTERNATIONALIZATION EXPERIENCES IN UKRAINE

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Moscow • Saint Petersburg • Tver • Yekaterinburg • Kiev • Helsinki

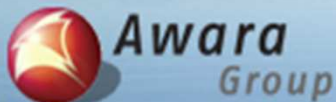
Structure of the Presentation

- Introduction
- Awara Group in Ukraine
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- Challenges
- Internationalization – Risk management



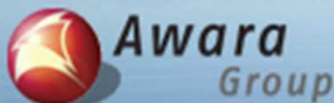
Awara Group is a major service provider

- Corporate and legal services
- Outsourced financial administration services and consulting
- Audit, financial control
- Direct search recruitment and HR-services
- IT-services and financial-administrative systems
- Market research, marketing support



Awara Group is a major service provider

- Offices in five cities
 - Moscow
 - St. Petersburg
 - Tver
 - Kyiv
 - Helsinki
- 160 professionals at your service
- Partnerships
 - Telfa – Transeuropean law firm alliance
 - USLAW – network, inc.
 - Microsoft, SAP, 1C
 - AmCham (Russia)
 - AmCham (Ukraine)
 - AEB (Russia)
 - EAB (Ukraine)
 - Finnish Business Group in Ukraine



Awara Group in Ukraine

- Why Ukraine? Meeting the demand from current customers (IT, retail, manufacturing and other sectors)
- Entry mode options: acquisition versus setting up own subsidiary
- In 2010 Awara acquired majority of the business of existing consulting firm Smithbridge
- In 2011, after one successful year of cooperation Awara acquired the remaining shares of Smithbridge
- Via acquisition to fully owned subsidiary
- Challenges in acquisition and cooperation
 - Legal and financial – transfer of business operations to new entity to avoid risks
 - Integration of business processes – control (if no control, people think it does not matter)
 - Corporate culture and management style – Ukraine is not Russia (position of Ukrainian language)

Market Entry Strategies

- Direct Sales
- Agency and Commission Arrangements
- Joint Venture with Ukrainian Partner
- Representative Office
 - Non-commercial and commercial (branch)
 - Registration takes several months
- Ukrainian Subsidiary
 - Common corporate forms are a limited liability company (“LLC”) and a joint stock company (“JSC”).
 - In both, liability of shareholders is limited to invested capital
 - LLC registration 3-4 weeks
 - JSC 2-4 months
 - Foreign businessmen prefer to set up LLC, as registration and operation is simpler

Case Studies

Direct Sales from Europe to Ukraine

- Lightest and simplest option (business admin, financially, legally)
- A properly drafted cross-border contract allows a foreign company to avoid taxation in Ukraine
- No control in what is happening in Ukraine
- Business can stop suddenly, risk that importer / distributor does not comply with laws and goods cannot enter Ukraine
- Unless trademark is protected, risk that distributor will steal it and replace the products
- No requirements to keep local accounting records in Ukraine

Joint Venture

- Key to success relationship with partner
- Often local partner provides knowledge of the market and foreign one brings in the know-how and / or technology
- In 50/50 Joint Venture often conflicts when no one major stakeholder
- Need to be controlled by the foreign partner, i.e. outsourcing accounting



Case Studies

Representative Office

- A RO is not a legal entity but a division of a foreign company registered in Ukraine.
- Its head office assumes all rights and obligations of the RO and bears the liability for its actions
- A RO which carries out commercial activities in Ukraine is deemed to be a commercial RO (which in different jurisdictions is called a “branch”) and triggers a permanent establishment of the foreign company for tax purposes.
- A RO which undertakes activities of a preparatory or auxiliary nature usually does not create a permanent establishment and is not subject to corporate income taxes in Ukraine
- Commercial representatives office is required to keep local accounting records (lighter than in subsidiary / company) and it can carry out import / export operations

Subsidiary

- Full control and may import goods
- Generally the same treatment as legal entities without foreign participation
- Presence in the market – provides message of being serious to customers and stakeholders
- Required to keep local accounting records

Challenges

- In Ukraine corruption sits deep in the social structures. Corruption is not about the Ukrainians. It is the business environment, manifested by the fact that very often foreigners in Ukraine operate the same way.
- If there is no control, it does not matter, people think. Business processes, management systems and corporate culture are not mature to automatically handle all the control needs. This is why control of a foreign subsidiary requires much more concentrated efforts and investments in management resources.
- “This is the way it’s done in Ukraine” – reference to customary practices not always a good strategy
- Customs, practices of tax authorities etc.

Internationalization – Risk Management

- Make sure you know who you hire and work with: background check, nominal GD in the beginning
- In setting-up your business operations, follow the rules (i.e. obtain work permits and follow other statutory requirements) and do not bribe
- Rules of the game should be clear. Basic principles of operations: tender on purchases, clear rules on selection of partner and its' motivation
- Clear organization and decision making structure. Management role. Transparency
- Security in local operations: expertise needed in daily life: tax advisors, auditors and legal support, insurances, brokerage
- Acquisitions: several tips: due diligence, time for check out of existing owners, tax & other risks indemnification
- Optimize business processes and avoid non-productive work (i.e. mentality of chief accountant)

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